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SUBJECT: ARGENTINA ANNOUNCES SOCIAL INVESTMENTS FROM
PROCEEDS OF AGRICULTURAL EXPORT TAX INCREASE

REF: BUENOS AIRES 0766 AND PREVIOUS

¶1. (SBU) Summary: The GOA announced June 9 that it will direct the marginal proceeds from its March 11 increase in soy export taxes to health (60%), housing (20%) and rural roads (20%). Argentine President Cristina Fernandez de Kirchner (CFK) followed the announcement with a 25-minute speech arguing that the effective increase in duties on soy exports, which triggered the ongoing crisis with the agricultural sector, was intended to protect Argentina's food security and to redistribute income. Agricultural leaders were unmoved, noting their grievances remain unaddressed as the president made no concession toward them. The public was also unimpressed, if initial polls are correct. The social investments are clearly intended to woo public support away from the agricultural sector, but financial analysts are worried about the fiscal impact of the announced spending. Also on June 9, a lower-level federal judge found the export taxes unconstitutional, and on June 10 the Supreme Court agreed to take up a provincial complaint on the export taxes. End summary.

More Government Spending for the Poor

¶2. (SBU) With considerable fanfare, CFK assembled much of her cabinet and allied governors, along with business and labor leaders, at Casa Rosada late on June 9. The GOA announced that it will direct proceeds from its March 11 increase in agricultural export taxes to health (60%), housing (20%) and rural roads (20%). CFK followed the announcement with a 25-minute speech calling on Argentines to help her combat poverty by showing solidarity with the poor and redistributing income. She argued that the March 11 tax increase, which triggered the ongoing crisis with the agricultural sector, was intended to protect Argentina's food security and to redistribute income. She implicitly faulted Argentine farmers for diverting a growing share of farmland to soy production, noting that Argentines do not eat soy but, due to the economic recovery of the last five years, are requiring greater amounts of beef, meat and wheat.

¶3. (SBU) Despite the recovery of the Kirchner years, CFK noted there were still too many Argentines without work, food, housing, health and education. She said it was "impossible to address poverty without redistributing income," and that she therefore felt obliged to "touch" upon the "extraordinary windfall" of a few in order to help the many. CFK denied accusations that the export tax increase was the result of the GOA's insatiable appetite ("fiscal voracity") or its desire to avoid sharing revenues ("co-participation") with provincial governments. She claimed that over 90% of the GOA's capital spending was executed by local governments, and so would the newly announced social investments. CFK concluded with an abstract apology to anyone who might feel offended by anything she

said, presumably during the conflict with the rural sector.

Reaction from Farmers and the Opposition

14. (SBU) "Nothing much has changed: the fight continues," as leading editorialist Joaquin Morales Sola noted in a page one June 10 headline in "La Nacion." Agricultural sector leaders continued to allege the tax increases were confiscatory and arbitrary. They were unmoved by CFK's speech, noting their grievances remain unaddressed as the president made no concession toward them. The GOA had boycotted earlier that same day a summons from Public Ombudsman Eduardo Mondino to meet with farmers at the negotiating table. Road blocks manned by farmers or truckers continued around the country, and the press continued to report scattered shortages of some food items in supermarkets. Farming sector leaders said they hoped negotiations would resume, and press reports indicated Planning Minister Julio De Vido might replace Cabinet Chief Alberto Fernandez as the GOA's lead negotiator.

15. (SBU) Opposition leaders such as the Civic Coalition's (CC) Elisa Carrio and the Radical Party's (UCR) Gerardo Morales criticized CFK for resorting to populist demagoguery and usurping the banner of combating poverty. Carrio said, "You don't fight poverty by combating production but by lowering inflation." Morales also said "the best way to combat poverty is to rein in the inflation" which disproportionately hurts the working class and poor. An "Ibarometro" poll published June 11 in "Clarín" found that 48% of the public did not believe the announced social investment projects would be carried out, and 60% of the public did not consider CFK's apology "sincere."

The Courts Start to Weigh In

16. (SBU) Also on June 9, lower-level federal judge Liliana Heiland ruled in favor of a farmer seeking judicial relief from the export taxes. According to Heiland, the tax increase was unconstitutional since it had not been approved by Congress. Heiland's ruling follows several similar decisions by other judges, but none of these decisions sets a legally binding precedent. Observers note the GOA may appeal the decisions or simply ignore them. On June 10, the Supreme Court agreed to take up a complaint filed by the province of San Luis alleging that export duties since 2001 had adversely affected provincial governments by reducing federal income tax revenues which, by law, must be shared with the provinces. A Supreme Court justice told the Ambassador June 11 that the Court was required by the Constitution to take the case as it was filed by a province against the federal government. She indicated the Court will likely not have a hearing for 60 days. (Note: The province of San Luis is governed by Alberto Rodriguez-Saa, a dissident Peronist and rival of the Kirchners.)

Impact in the Provinces

17. (SBU) The governor of a major province told the Ambassador June 5 that the prolonged agricultural crisis was devastating, with dire repercussions for everyone. He said buyers and investors had fled, and businesses were holding off on major decisions, cautiously holding back until the situation clarified. He noted the impasse between the GOA and farmers was damaging Argentina's reputation. "We need a solution and soon," he concluded. Media reports are increasingly focused on the growing discomfort or self-distancing of key governors allied with the Kirchners, particularly in heavily agricultural provinces, such as Cordoba governor Juan Schiaretti, who is openly critical of the CFK administration, and Entre Rios governor Sergio Urribarri. Press reports also indicate that the highly popular governor of Buenos Aires province, former vice president Daniel Scioli, has taken a beating in the polls because of his perceived reluctance to meet with farmers or

take up their cause.

Comment:

18. (SBU) The announced social investments are clearly intended to woo public support away from the agricultural sector and also enlist the support of governors by earmarking the new revenues for provincial governments to spend on hospitals, housing and roads. Influential "Clarín" editorialist Eduardo van der Kooy wrote June 11 that CFK bought herself some time with her June 9 announcement but did not end the farm revolt nor change the public perception of Kirchner intransigence and unwillingness to dialogue or negotiate. In a June 11 editorial, the "Buenos Aires Herald" noted the GOA's social plan "looked more like improvisation than a detailed blueprint against poverty," but CFK had stolen the moral high ground by earmarking grain export duties to the fight against poverty. The editorial also termed the GOA's strategy of holding down food prices by impeding exports as "self-defeating because food will never be cheap if farm production is discouraged." Pundits also observed that, despite the GOA's claim that the new social spending would be executed by provincial governments, the Kirchners and Planning Minister Julio De Vido would ultimately use the apportionment of funds to keep political control of governors.

19. (SBU) In the absence of hard data in the GOA's proposal, financial analysts are worried about the fiscal impact of the announced spending, particularly if soy prices should decline. By some estimates, at current soy prices the GOA stands to collect an additional \$1.45 billion annually from the sliding scale of taxes on soy exports alone. New government spending on this scale could add marginally to inflationary pressures and could also complicate the GOA's ability to meet higher debt service requirements in 2009-11. Other analysts worry that the government will next turn to other sectors, like the banks, to tax "excess" profits. Clearly, this drama is not over.

WAYNE